

Message Text

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PAGE 01 SEOUL 01529 01 OF 02 240552Z
ACTION EA-12

INFO OCT-01 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05
SS-15 STR-07 ITC-01 TRSE-00 USIA-06 SP-02 SOE-02
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R 240521Z FEB 78
FM AMEMBASSY SEOUL
TO SECSTATE WASHDC 9501
INFO AMCONSUL HONG KONG
USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 1 OF 2 SEOUL 1529

HONG KONG PLEASE PASS REGFINATT

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E.O. 11652: N/A
TAGS: ETRD EALR BEXP KS
SUBJ: KOREAN GOVERNMENT ISSUES GUIDELINES FOR IMPORT LIBERAL-
IZATION

REF: SEOUL 1246 (NOTAL)

BEGIN UNCLASSIFIED

SUMMARY: IN LINE WITH CURRENT EMPHASIS ON IMPORT LIBERALI-
ZATION, THE ROKG HAS ISSUED GUIDELINES WHEREBY THE LIST OF
IMPORT COMMODITIES SUBJECT TO RESTRICTIONS IS TO BE REDUCED.
ITEMS SELECTED FOR LIBERALIZATION WILL CONSIST OF THOSE
EITHER WHICH DO NOT COMPETE WITH DOMESTIC PRODUCTION, OR
IN WHICH DOMESTIC PRODUCERS ARE NOW SUFFICIENTLY COMPETITIVE
TO WITHSTAND IMPORT THREAT. SINCE GUIDELINES PROVIDE PLENTY
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PAGE 02 SEOUL 01529 01 OF 02 240552Z

OF LEEWAY FOR CONTINUED PROTECTIONISM, IT IS TOO EARLY TO
JUDGE AT THIS TIME WHETHER LIBERALIZATION WILL LEAD TO
SIGNIFICANT INCREASE IN IMPORTS. WE WILL HAVE A BETTER
IDEA IN WEEKS AHEAD WHEN LIST OF FREED ITEMS BECOMES
AVAILABLE. END SUMMARY.

1. IN THE WAKE OF CURRENT EMPHASIS ON IMPORT LIBERAL-

IZATION, THE ROKG EARLY THIS YEAR ESTABLISHED AN IMPORT LIBERALIZATION DELIBERATION COMMITTEE, HEADED BY MCI VICE-MINISTER BAE SANG-WOOK, TO DIRECT FORWARD MOVEMENT IN THIS AREA. IN ITS INITIAL MEETING ON FEBRUARY 10, THE NEW BODY'S FIRST OFFICIAL ACT WAS TO SET UP A WORKING-LEVEL SUBCOMMITTEE TO LAY DOWN BASIC GUIDELINES FOR LIBERALIZING IMPORTS. SUBCOMMITTEE, COMPOSED OF OFFICIALS FROM BLUE HOUSE, PRIME MINISTER'S OFFICE, AND CONCERNED ECONOMIC MINISTRIES, DID ITS WORK QUICKLY. BASIC GUIDELINES WERE RELEASED ON FEBRUARY 16 BY IMPORT LIBERALIZATION DELIBERATION COMMITTEE, AND ARE SUMMARIZED BELOW:

2. ACCORDING TO COMMITTEE STATEMENT, FOLLOWING GENERAL POLICY CONSIDERATIONS UNDERLIE THE NEW GUIDELINES:

(A) A DESIRE TO STRENGTHEN COMPETITIVENESS OF KOREAN INDUSTRY BY REMOVING EXCESSIVE PROTECTION; (B) AT THE SAME TIME, A DESIRE TO PROTECT "EMERGING" INDUSTRIES TEMPORARILY, AND PROMOTE HEAVY AND CHEMICAL INDUSTRY DEVELOPMENT; (C) THE NEED TO WORK WITHIN GATT/MTN FRAMEWORK; (D) A DESIRE TO MODIFY EXTREME BILATERAL TRADE IMBALANCES VIS-A-VIS MAJOR PARTNERS; (E) NEED FOR DOMESTIC PRICE STABILITY AND PROMOTION OF FREE MARKET MECHANISM; AND (F) NEED TO ADJUST TO CHANGING BALANCE OF PAYMENTS POSITION, SO AS TO MAINTAIN PROPER LIMITED OFFICIAL USE

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PAGE 03 SEOUL 01529 01 OF 02 240552Z

LEVEL OF FOREIGN EXCHANGE RESERVES. (COMMENT: NOT SPECIFICALLY STATED IN GUIDELINES, BUT CERTAINLY A PRIME CONSIDERATION, IS KOREA'S DESIRE TO HEAD OFF PROTECTIONIST TRENDS ABROAD BY DEMONSTRATING A WILLINGNESS TO LIBERALIZE ITS OWN MARKET.--END COMMENT)

3. THE KEY FEATURE OF THE NEW GUIDELINES IS A STATEMENT OF INTENT TO REMOVE AS MANY IMPORT ITEMS AS POSSIBLE FROM THE "RESTRICTED LIST" (I.E., OF ITEMS WHOSE IMPORT REQUIRES PRIOR APPROVAL, SUBJECT TO VARIOUS OVERT AND INTERNAL CONSTRAINTS). CURRENT SEMI-ANNUAL TRADE PLAN, UNDER WHICH ALL COMMODITY IMPORT ITEMS ARE CLASSIFIED AS "BANNED", "RESTRICTED", OR "AUTOMATIC APPROVAL", WILL BE REORGANIZED TO INCLUDE A NEW CATEGORY--OF SO-CALLED "SURVEILLANCE" ITEMS. ITEMS PLACED INTO THIS CATEGORY WILL BE FREELY IMPORTABLE, BUT IMPORTS WILL BE CLOSELY MONITORED TO DETERMINE IMPACT ON DOMESTIC MARKET. AFTER A CERTAIN PERIOD OF TIME, DEPENDING ON RESULTS, ITEMS WILL EITHER BE MOVED TO AUTOMATIC APPROVAL STATUS OR RETURNED TO RESTRICTED CATEGORY. OVER NEXT FEW WEEKS, GOVERNMENT WILL CONDUCT COMPLETE REVIEW OF ALL RESTRICTED LIST

ITEMS WITH A VIEW TO MOVING AS MANY AS POSSIBLE EITHER
DIRECTLY TO AUTOMATIC APPROVAL, OR TO NEW "SURVEILLANCE"
CATEGORY.

4. RESTRICTED LIST ITEMS TO BE LIBERALIZED IN THIS
MANNER MUST FALL INTO ONE OF THE FOLLOWING THREE
CATEGORIES: (A) COMMODITIES WHICH ARE NOT PRODUCED
IN KOREA AND WHICH DO NOT COMPETE WITH KOREAN INDUS-
TRIES; (B) COMMODITIES IN WHICH KOREA CLEARLY LACKS
COMPARATIVE ADVANTAGE AND OF WHICH DOMESTIC PRODUCTION
IS THEREFORE NOT PLANNED; AND (C) COMMODITIES IN WHICH
KOREA IS STRONGLY COMPETITIVE (IF SOME PROTECTION IS
NEEDED, IT WILL BE APPLIED THROUGH TARIFF MECHANISM).

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PAGE 01 SEOUL 01529 02 OF 02 240613Z
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LIMITED OFFICIAL USE SECTION 2 OF 2 SEOUL 1529

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5. COMMODITIES WILL REMAIN ON RESTRICTED LIST, HOW-
EVER, IF THEY FALL INTO ONE OF THE FOLLOWING CATE-
GORIES: (A) INDUSTRIES WHICH GOVERNMENT IS TRYING TO
FOSTER IN ORDER TO DEVELOP KOREAN COMPETITIVENESS,
AND WHICH ARE NOT PROTECTED ADEQUATELY BY TARIFFS; (B)
SENSITIVE AGRICULTURAL, FISHERY, AND MEDIUM-INDUSTRY
PRODUCTS; (C) SMALL INDUSTRIES WHICH WOULD BE THREATENED
BY COMPETITION; (D) ITEMS RESTRICTED FOR NON-ECONOMIC
REASONS, E.G., LIQUOR AND CIGARETTES; (E) LUXURY ITEMS;

(F) OTHER ITEMS SUBJECT TO SPECIAL CONDITIONS. FURTHER-MORE, IMPORT ITEMS WILL CONTINUE TO BE BANNED IF THEY VIOLATE THE NATIONAL CONSTITUTION, ARE CONTRARY TO SOCIAL ORDER, OR WOULD ADVERSELY AFFECT THE HEALTH OF THE NATION.

6. IN ORDER TO CONDUCT THIS EXERCISE, THE COMMITTEE
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PAGE 02 SEOUL 01529 02 OF 02 240613Z

WILL SET UP A TASK FORCE CONSISTING OF REPRESENTATIVES FROM VARIOUS CONCERNED GOVERNMENT AGENCIES, INCLUDING BLUE HOUSE, PRIMIN'S OFFICE, EPB, MOF, AND MCI. TASK FORCE IN TURN WILL SET UP THREE WORKING TEAMS: FIRST, UNDER AEGIS OF MINISTRY OF AGRICULTURE, TO REVIEW AGRICULTURAL AND FISHERY ITEMS; SECOND, UNDER MINISTRY OF ENERGY AND RESOURCES, TO REVIEW MINING AND MINERAL PRODUCTS; THIRD, UNDER MCI, TO REVIEW MANUFACTURED GOODS. FINAL DRAFT RECOMMENDATIONS MUST BE PREPARED BY MARCH 31 FOR PRESENTATION TO IMPORT LIBERALIZATION DELIBERATION COMMITTEE SOMETIME IN EARLY APRIL. PRESUMABLY, A PERIOD OF REVIEW WILL BE NECESSARY BEFORE TRADE PLAN REVISIONS ARE PUT INTO EFFECT.

7. N.B. BY COMMITTEE'S COUNT, OF THE 1,097 FOUR-DIGIT CCCN COMMODITY CATEGORIES, 591 ENJOY AUTOMATIC APPROVAL STATUS, 456 APPEAR (IN WHOLE OR IN PART) ON THE RESTRICTED LIST, AND 50 ARE ON THE BANNED LIST. OF THE 456 RESTRICTED ITEMS, 27 ARE SUBJECT TO AN EXPORT/IMPORT LINK REQUIREMENT (RECENT ABOLITION OF THE SYSTEM, IN PRINCIPLE, NOTWITHSTANDING), AND 34 ARE SUBJECT TO IMPORT CEILINGS. BREAKING DOWN THE 456 RESTRICTED-LIST ITEMS BY SECTOR, 60 CONSIST OF AGRICULTURE AND FISHERY PRODUCTS; 34 ARE FOODSTUFFS, 8 ARE MINING PRODUCTS; 95 ARE CHEMICAL PRODUCTS; 108 CONSIST OF MACHINERY; 47 ARE METAL PRODUCTS; 43 ARE TEXTILE PRODUCTS; AND 61 ARE MISCELLANEOUS. END UNCLASSIFIED

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8. COMMENT: WHILE THESE GUIDELINES APPEAR TO DEMONSTRATE A DESIRE ON THE GOVERNMENT'S PART TO MOVE AHEAD WITH IMPORT LIBERALIZATION, WE WILL HAVE TO RESERVE
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PAGE 03 SEOUL 01529 02 OF 02 240613Z

JUDGMENT FOR THE TIME BEING. KEY QUESTION NOW IS HOW MANY ITEMS WILL BE REMOVED FROM RESTRICTED LIST, AND

WHETHER THOSE CHOSEN ARE LIKELY TO GENERATE A
SIGNIFICANT INCREASE IN IMPORTS. LIST OF COMMODITY
CATEGORIES SPECIFICALLY EXEMPTED FROM LIBERALIZATION
EXERCISE LEAVE PLENTY OF MANEUVERING ROOM FOR PROTEC-
TIONISTS WITHIN ROKG; IT IS CLEAR THAT ROKG HAS NO
INTENTION OF ALLOWING ANY EXISTING DOMESTIC FIRMS TO
"GO UNDER" AS A RESULT OF FOREIGN COMPETITION. FURTHER-
MORE, "SURVEILLANCE" SYSTEM IN ITSELF PROVIDES A BUILT-
IN MEANS OF BACKTRACKING, AND AFFORDS THE PROTECTIONISTS
AN OPPORTUNITY TO CLAIM, LATER, THAT THEY "GAVE
LIBERALIZATION A FAIR TRIAL". IN ADDITION, IT SHOULD
BE NOTED THAT THE RESTRICTED AND BANNED LISTS CON-
STITUTE ONLY ONE--THOUGH ADMITTEDLY THE MOST EFFECTIVE--
TOOL USED BY KOREANS TO RESTRICT IMPORTS. REMOVAL OF
AN ITEM FROM THE RESTRICTED LIST THEREFORE WILL NOT
NECESSARILY ELIMINATE ALL BARRIERS TO IMPORTING THAT
ITEM. IN ANY EVENT, WE SHOULD HAVE A BETTER PICTURE
OF ROKG'S TRUE INTENTIONS IN WEEKS AHEAD.

9. ANOTHER ELEMENT OF GUIDELINES WORTH NOTING IS
STATEMENT TO EFFECT THAT "DIRECT" METHODS OF CONTROL-
LING IMPORTS (I.E., TRADE PLAN) WILL BE REPLACED,
WHERE NECESSARY, BY "INDIRECT" METHODS (I.E., TARIFFS).
WE HAVE HEARD THIS SAME THEME IN SEPARATE CONTACTS
WITH ROKG OFFICIALS. THUS THE DANGER EXISTS THAT THE
GAINS MADE IN LIBERALIZING NTB'S MAY BE OFFSET TO
SOME DEGREE BY HIGHER TARIFFS. END COMMENT.

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